



Grameen Foundation USA



Reducing Global Poverty with Microfinance

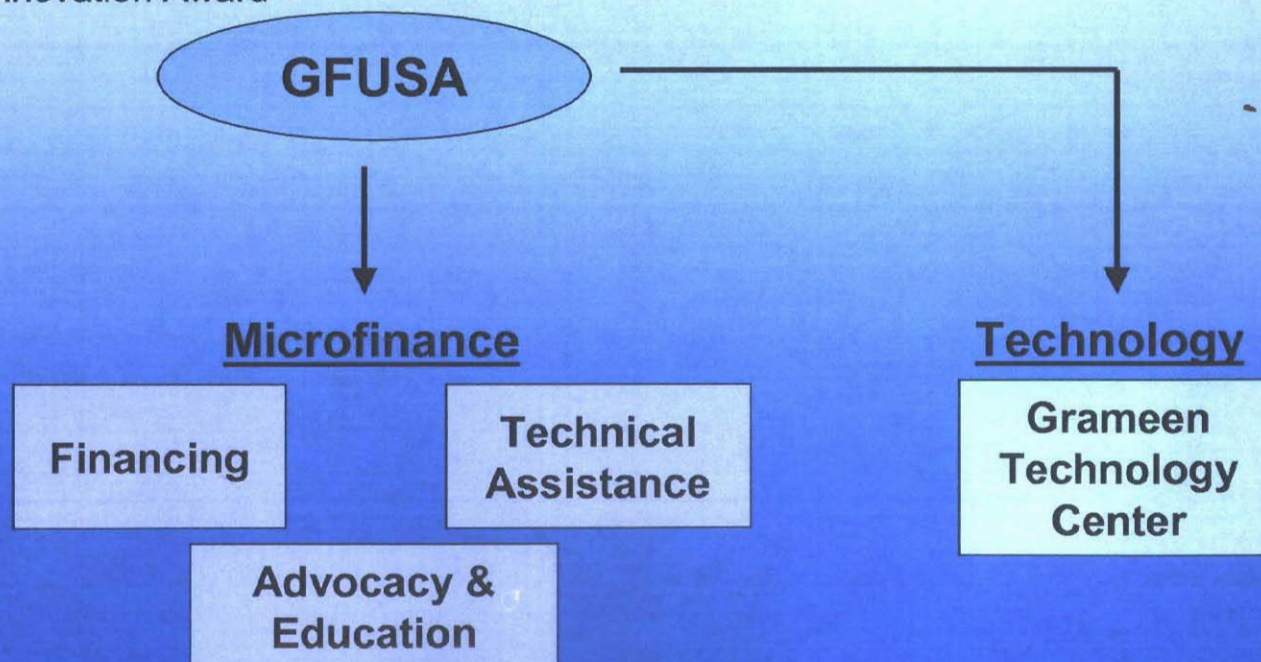
GFUSA's Capital Markets Group

Regula Schegg
Deputy Director of Capital Markets
December 2005

Celebrating the United Nations International Year of Microcredit 2005

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- **US-based non-profit organization established in 1997**
 - 2004 budget = \$11 MM; Recent Growth ~50% a year
 - Founding Board member: Dr. Muhammad Yunus of Grameen Bank
- Support microfinance and information technology programs to fight global poverty and bring opportunities to the world's poorest people
- GFUSA network: **52 microfinance institution partners in 22 countries**
- **Awards and Recognition**
 - Fast Company Social Capitalist Award
 - Charity Navigator four-star rating (highest possible)
 - Pro-Poor Innovation Award



GFUSA Strategic Plan (2004-2008)

Assumptions

- Microfinance is a solution that can be implemented on the scale appropriate of the problem of the global poverty crisis
- Positive socio-economic impact cannot be assumed
- Microfinance is not just an intervention, but a platform

Goal #1: 'Massification' - 5 MM new clients

- >80% by 12 MFIs in a few key markets (Nigeria, India, Pakistan)

Goal #2: Impact - half cross the poverty line

- Within 5 years of taking first loan; new CGAP supported tool

Goal #3: Innovation - 3 industry-wide breakthroughs

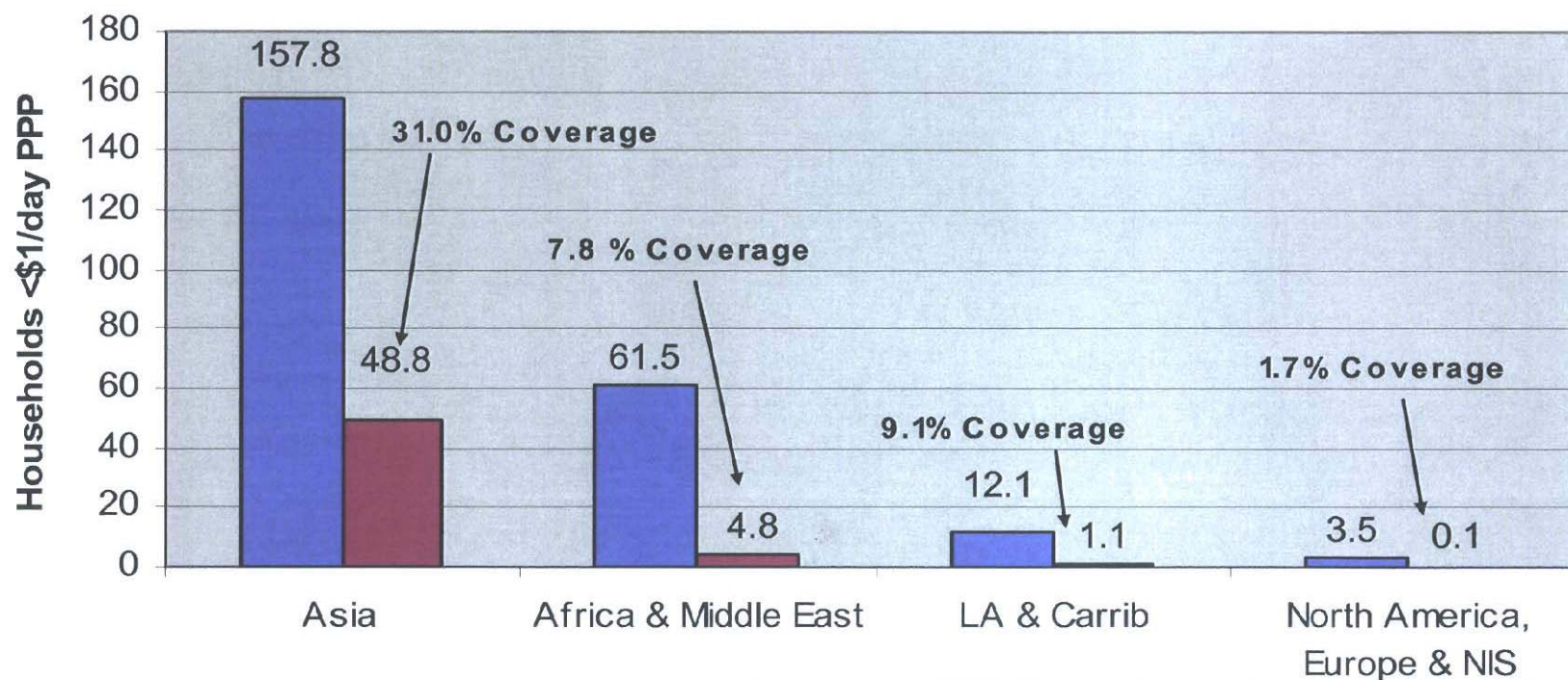
- Two technology-related: Grameen Technology Center
 - www.gfusa.org/technology_center
- One in financing

Global Market Overview



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Number of the World's Poorest People & Regional Breakdown of Their Microfinance Market Access:
Progress Made, but still a long way to go



(Numbers in MM)

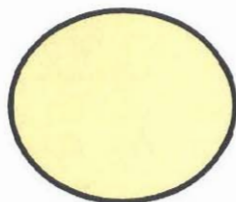
Source: State of the Microcredit Summit Campaign Report 2004

Global Supply: 23% of demand

Supply and Demand



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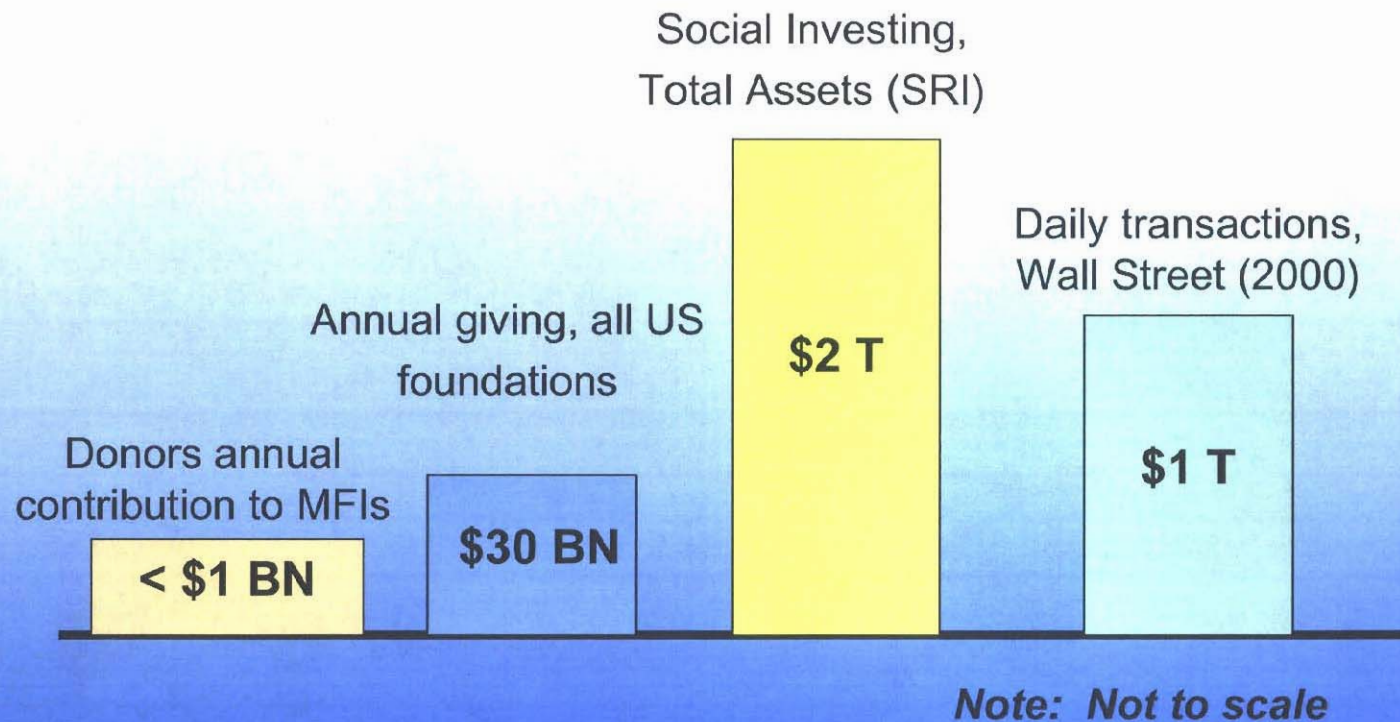
Global Microcredit Supply
\$10 BN



Global Microcredit Demand
\$300 BN

- **Market Penetration in Bangladesh:**
 - *70% of poor families*
- **Grameen Bank Impact (World Bank study)**
 - *120 K families out of poverty per year (as of mid-90s)*
- **Meeting Demand: A Key for Millennium Development Goals**
 - *MDG #1: Cut poverty in half by 2015*

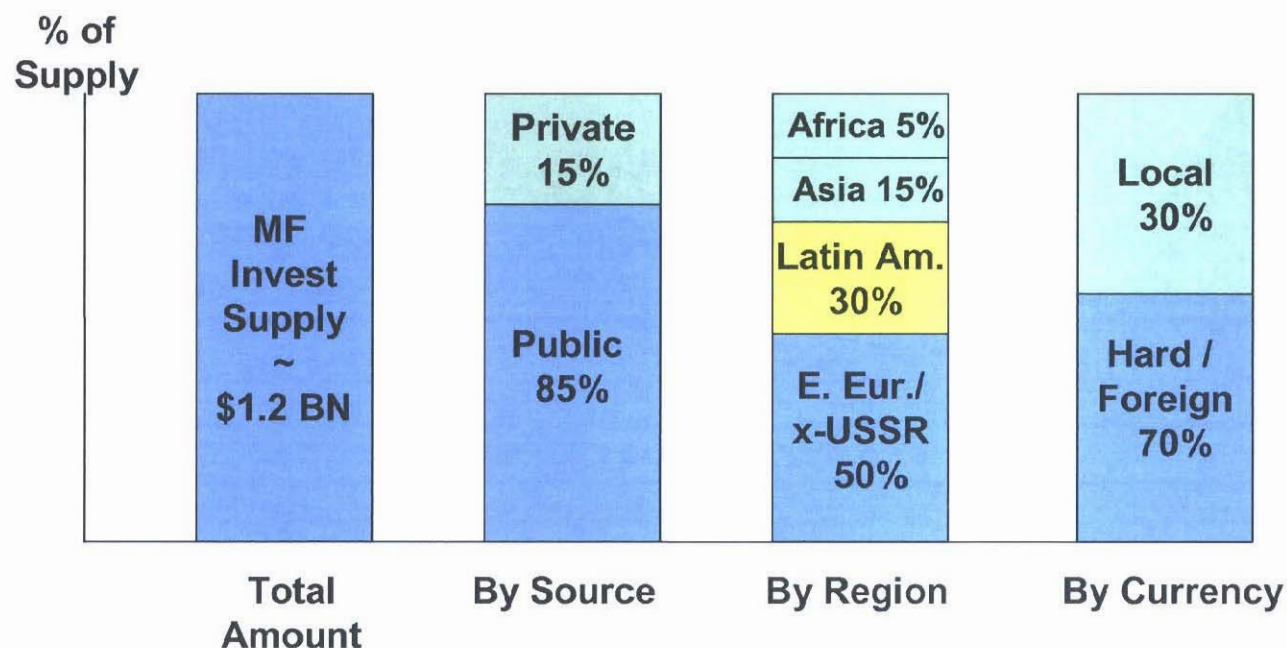
Microfinance Capital Choices



How can philanthropic resources best catalyze resource flows from the capital markets?

\$\$\$: Capital in Microfinance

The Problem: Shortcomings in amount, source, location, type



Source: CGAP

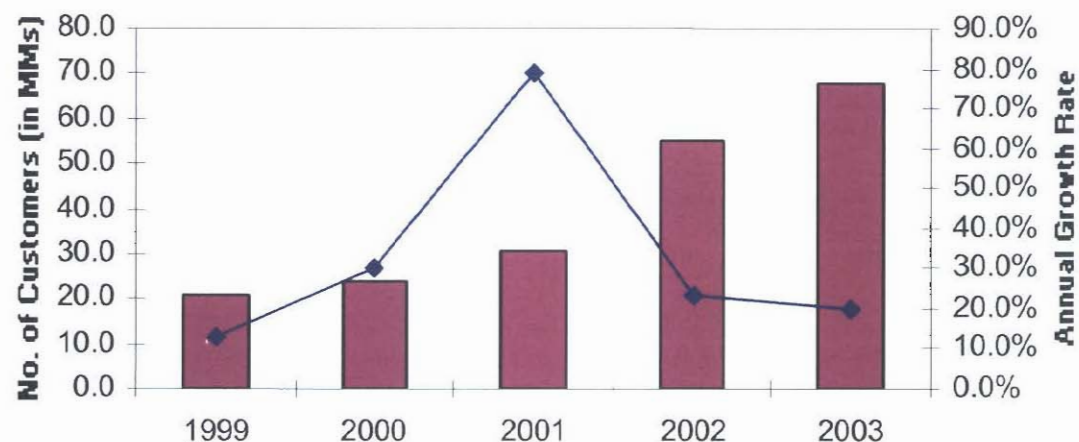
Opportunity: Foster more private, local capital to Asia & Africa

Global Microfinance Industry

Growth rates have been high...

Source: MSC State of the Campaign 2004 Report

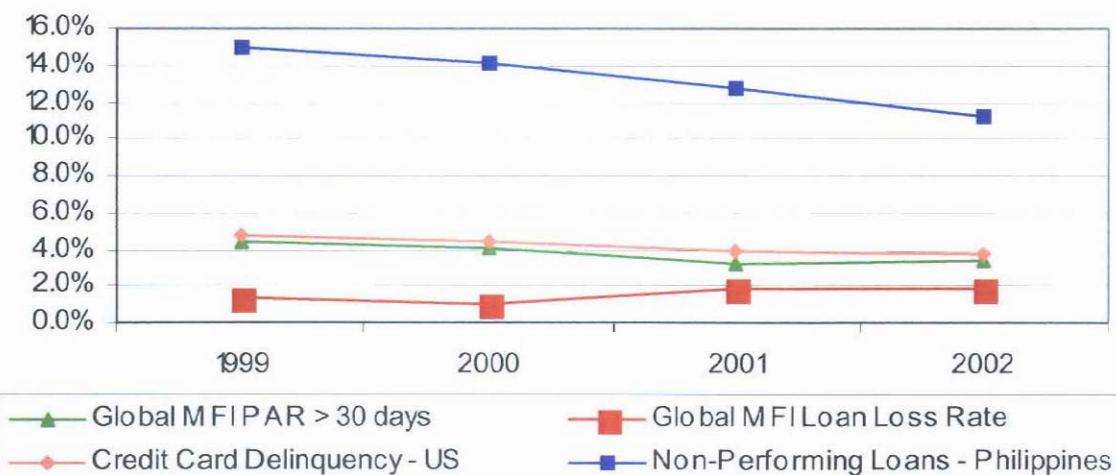
Microfinance Industry Growth



...while portfolio quality remains strong...

Source: MFI Data from Microbanking Bulletin, March 2005
Other data – 2001 to Q12005 – from Federal Reserve website, BSP Website

Portfolio Quality Comparison



Global Microfinance Industry

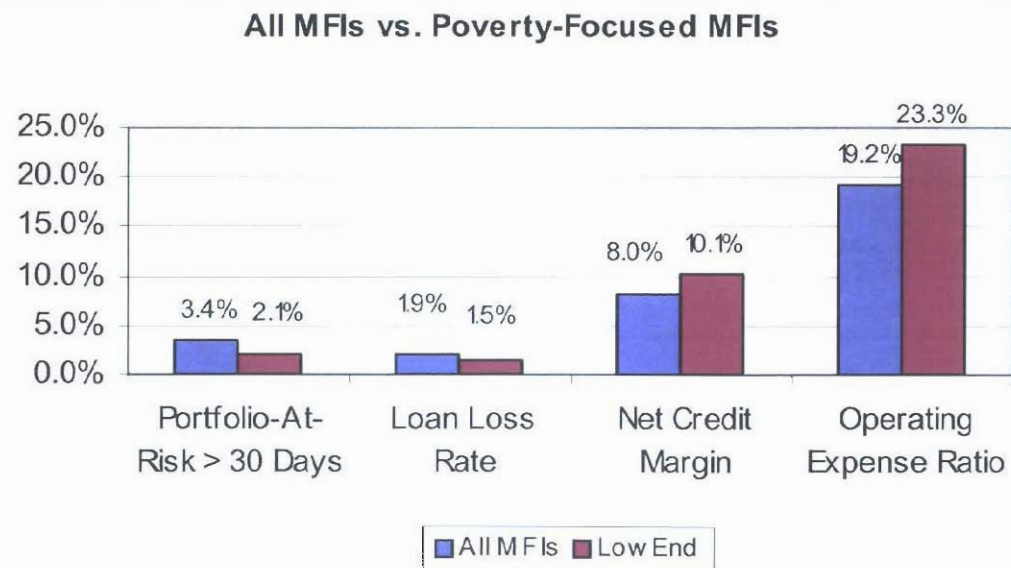
...with efficiency gains driving profitability.

Source: Microbanking Bulletin, March 2005



Niche of poverty-focused microfinance has strong track record.

Source: Microbanking Bulletin, March 2005



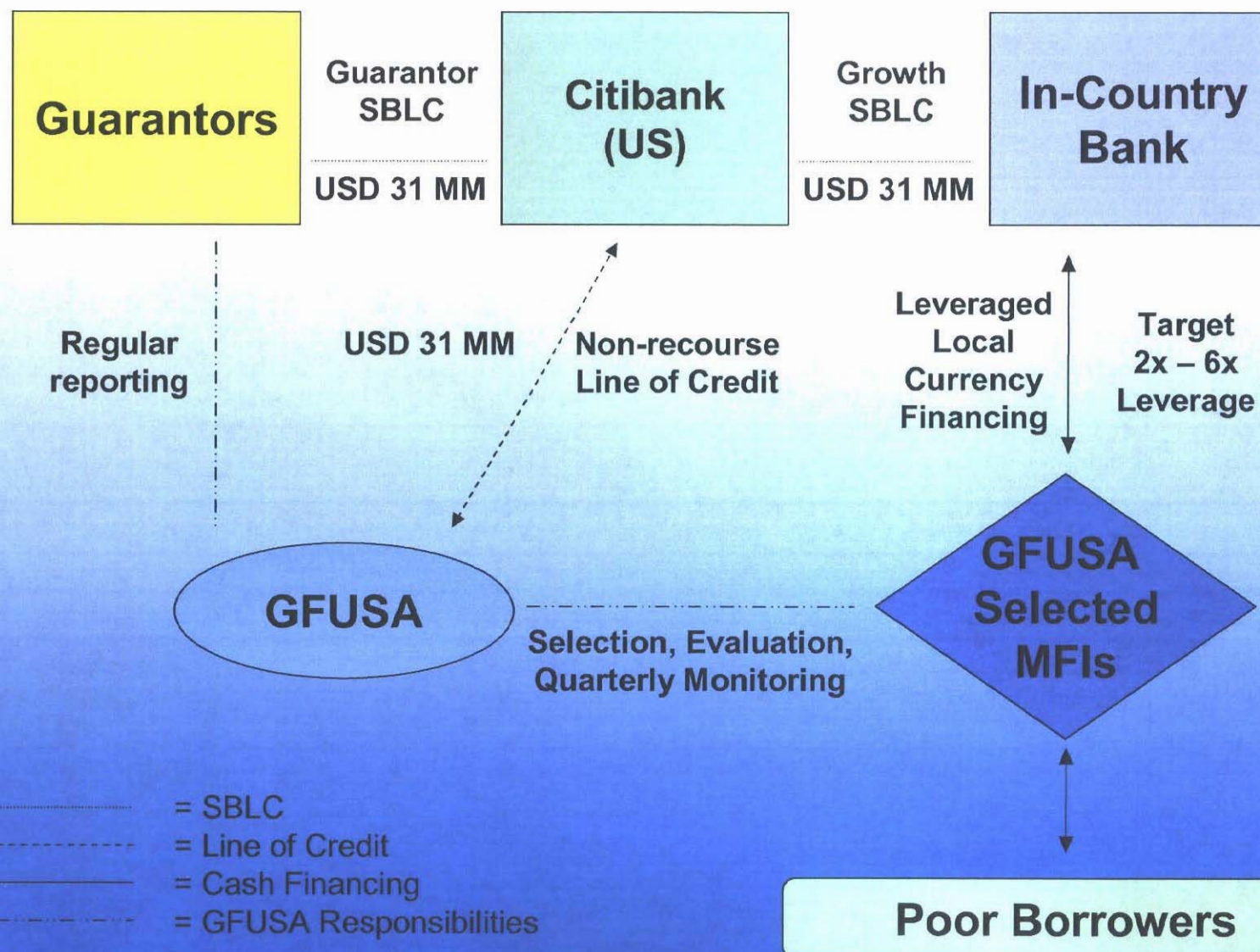
To harness vast resources from the capital markets to support rapid expansion of leading, poverty-focused MFIs

- Develop and manage GFUSA branded investment products
 - Simple, flexible, with varied risk-return profiles
 - Such as growth guarantees and equity products
- Establish microfinance as an asset class / viable investment opportunity
 - Identify, negotiate & execute capital markets opportunities
 - Present microfinance risk-return in terms that investors understand
- Demonstrate leadership linking poverty-focused microfinance and the capital markets
 - Facilitate domestic capital market as the primary source of long-term financing for MFIs
 - Spread GFUSA capital markets knowledge to countries with high numbers of poor people

Current CMG products – Growth Guarantees



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“Guaranteeing” Success



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- SBLC Structure
 - Issued in USD by Citibank (US)
 - Irrevocable
 - Available on first demand
 - Minimum size USD 100 K; Maximum size USD 5 MM
 - Tenor up to 4.5 years
- Applicability
 - Leading poverty-focused MFIs meeting minimum eligibility requirements
 - Allows range of guarantee structures
 - Target leverage of 2x – 6x
 - Seek lengthening tenor and interest rates closer to the prime lending rate
 - Ability to support variety of financing instruments
 - Flexible regarding legal structure of MFI

Establish Microfinance as an Asset Class

Purpose:

Survey financial professionals to gather data & understand perceptions of the necessary qualities & information for microfinance to be viewed as a viable commercial investment opportunity and what it will take to be established as such.

Main Questions:

- 1. Is microfinance now or can it become its own asset class? What is needed to bring this about?*
- 2. How do you price risk for microfinance as an asset?*

- **Microfinance presents a unique alternative investment opportunity**
 - Excellent portfolio quality
 - Strong operational and financial track record
 - Huge growth potential
 - GFUSA support in structuring transactions and ongoing monitoring
- **GFUSA seeking to work with banks to link microfinance and the financial markets**
 - Goal of sustainable and profitable local commercial relationships
 - Flexible guarantee product
 - Strong partner network
 - Team of professionals with deep finance and microfinance experience

Appendix A



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GFUSA Capital Markets Transactions

Blue Orchard Bond

The Deal: USD 40 MM bond with proceeds going to 9 MFIs

GFUSA's role: USD 250 K equity. Our early commitment brought in other investors

Share/ICICI Portfolio Purchase

The Deal: USD 4.3 MM sale of portfolio

GFUSA's role: USD 350 K grant as first loss guarantee, leveraged 12x

CARD/Land Bank Pilot Line

The Deal: USD 820 K line of credit; Promise to increase & replicate over time

GFUSA's role: USD 410 K subordinated 7 year local currency loan, initially leveraged 2x

SKS Partnership Model

The Deal: USD 4.6 MM in financing

GFUSA's role: USD 375 K SBLC to support partnership model, leveraged 12x

Appendix B



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Key Staff Biographies: Capital Markets

Jennifer Meehan, Director of Capital Markets & Co-Chair of Capital Markets Committee

Jennifer Meehan joined GFUSA in February 2005. She brings over 11 years of experience in banking, specifically project financing with Chase Manhattan Bank (now JP Morgan Chase), and microfinance. She has been based in Asia for the last 9 years. Prior to joining GFUSA, she worked extensively with poverty-focused MFIs throughout Asia on financial management, business planning and financing. She has also consulted for Calvert Social Investment Foundation, among others, and published a number of articles. She serves on the Investment Committee of the Aavishkaar India Micro Venture Capital Fund. Meehan graduated with a BA in International Affairs from George Washington University.

Regula Schegg, Deputy Director of Capital Markets

Regula Schegg joined GFUSA in July 2005. She brings over 9 years of public and private sector finance experience. Previously, she was a Financial Analyst at Sustainable Asset Management in Zurich and Chicago. She has also provided consulting and M&A services world-wide. She is a Steering Committee Member of the Annual Private Equity Conference at Thunderbird. Schegg graduated with a MBA (Honors) in International Management from Thunderbird, the Garvin School of International Management, and has passed the CFA level II exam. She holds degrees from the Lucerne School of Business, University of Applied Sciences of Central Switzerland, and University of Abertay, Dundee, UK.

Thank you for your interest



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